

**MBE POLICY AS ECONOMIC DEVELOPMENT:  
AN EXAMINATION OF PUBLIC CONTRACTING IN GEORGIA**

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**MBE POLICY AS ECONOMIC DEVELOPMENT:  
AN EXAMINATION OF PUBLIC CONTRACTING IN GEORGIA**

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## **SUMMARY**

Many scholars suggest that Minority Business Enterprises help disadvantaged populations and achieve greater equity in society. Rooted in the affirmative action policies of the 1960s and 1970s, Minority Business Enterprise designations have become a standard way for the federal government to assist minority entrepreneurs as well as protect against discrimination in contracting. Some scholars even suggest that these policies go beyond protection from discrimination and actually foster economic development in minority communities. This thesis examines those claims and utilizes an example from 12 years of the Georgia Department of Transportation's records on contracting with MBEs to answer the question: who is helped by these federal policies? This examination sheds light on the current literature linking MBEs with economic development as well as adds to the sparse literature on outcomes for MBE policy. The results of data analysis show that , over a 12-year period, White female business enterprises receive the twice as many contracting dollars as all other Minority Business Enterprises combined.

# **CHAPTER 1**

## **INTRODUCTION**

This paper is an examination of the government's response to systemic inequality in society. Beginning in the 1950s and 1960s, the United States enacted some reforms to promote inclusion of marginalized groups into education, the workforce and business. These policies are collectively known as affirmative action policy, the term being taken from a speech give by President John F. Kennedy. Here the focus will be on affirmative action in business, specifically public contracting policies and how they do or do not help minority-owned firms.

Minority-owned Business Enterprises (MBEs) have become fundamental components of public and private contracting over the last several decades, often through affirmative action programs directed at small businesses with the end-goal of economic development (Malecki, 1997; Ong, et al., 1997). While the roots of non-discrimination began in the 1950s with affirmative action, it was under the Nixon Administration that the Office of Minority Business Enterprise was established and minority business became a feature of governmental policy. Since the early 1970s, MBE legislation has continued to expand, incorporating more groups into its purview. More recently, the U.S. Congress passed the *Transportation Equity Act for the 21st Century* (TEA-21), which was enacted in 1998 and is administered by the U.S. Department of Transportation. TEA-21 defines



Disadvantaged Business Enterprises (DBEs)<sup>1</sup> as “small firms that are owned and controlled by minorities and women in highway and transit contracting undertaken with Federal funding” (Federal Highway Administration, 2008). The legislation provides a goal of 10 percent of federal highway funds awarded to DBEs.<sup>2</sup>

By looking at data from the State of Georgia, this paper has two interrelated questions. First, is the policy being followed? Second, whom does the policy help? MBE policy is seen by most as beyond simply prevention of discrimination or inclusion in business opportunity. The philosophical underpinning of such policy is rooted in a sense of justice, buoyed by claims that it bolsters economic development and empowerment. If marginalized groups that have been historically excluded are offered a fair-share of business opportunity, that group or groups of individuals will be collectively better off than if there was no policy. Though these policies emerged in the 1960s under executive order of President Lyndon Johnson and later President Richard Nixon’s establishment of the Office of Minority Business Enterprise (Executive Order 11458), they were indirectly supported by the so-called “public turn” in American philosophy. In particular, John Rawls, in his *Theory of Justice* (1971), argued that arranged inequality in society is only permissible if it benefits the least advantaged of the society. The two questions of this thesis – is the policy being followed and who does the policy help –

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<sup>1</sup> In this paper, the term “DBE” will be used only when referring to women- or minority-owned businesses involved in transportation contracting, in keeping with federal regulatory language. A minority-owned business enterprise (MBE) is a broader term, referring to any minority firm in any industry. In other words, a DBE is not a type of MBE; it is what an MBE is referred to within the U.S. Department of Transportation (USDOT) and state DOTs.

<sup>2</sup> See 49 CFR 26, <http://www.fhwa.dot.gov/HEP/49cfr26.HTM#sec.26.1>. [Last accessed June 17, 2010].

addresses a further philosophical question, is the policy fair? That is, are the least disadvantaged of the society actually put at an advantage with the policy?

These questions are explored using data collected on firms contracting with the Georgia Department of Transportation (GDOT) between 1995 and 2006. Firms studied were contracted for preconstruction services (i.e., engineering design, mapping, geothermal testing, and site acquisition services). This case study has a longitudinal dataset with a nearly complete set of contracts. Not only is this case study a limited review of GDOT, but also it is even narrower considering that the focus is on one division within GDOT. Broader compliance questions from an agency-wide perspective cannot be determined.

This thesis is a culmination of my learning in the School of Public Policy at the Georgia Institute of Technology. Basic economic development theory was learned in the City and Regional Planning Department of the School of Architecture, but it was in the School of Public Policy that I approached economic development issues with a critical perspective. In Urban Policy Analysis, I learned the issues facing cities and developed a solid background in what inner city strategies might be useful for economic development. Workforce development and income-based strategies for helping individuals were relevant topics that lend themselves to the topic of this thesis.

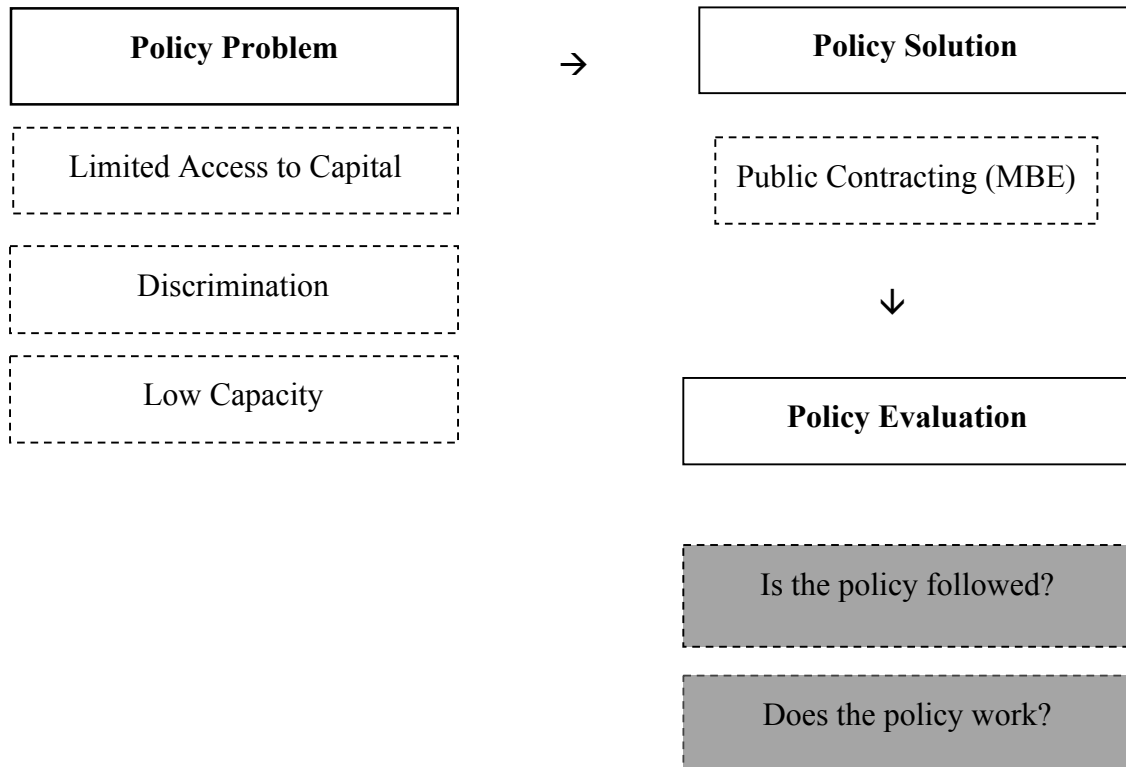
The GDOT research project – from which the data comes – was a simple evaluation internship that was transformed into an ethical inquiry, once I was introduced to John Rawls’s notion of fairness in “Ethics, Epistemology and Public Policy” class. This ethical consideration was further explored in Urban Development Policy and Planning with Dr. David Sawicki, where I focused on strengthening Black businesses in

the inner city as my final project and how that could be done successfully in the 21<sup>st</sup> century. I also use a comparison of means analysis for the data below, which I learned in Applied Policy Methods with Dr. Marco Castillo, now of George Mason University, and further policy analysis tools I learned with Dr. Marilyn Brown in “Public Policy Analysis.” Many of the referenced works come from “Equity, Justice and Economic Development” class with Dr. Harley Etienne, where we explored U.S. examples of economic and racial disparity in economic development strategies.

## **CHAPTER 2**

### **LITERATURE REVIEW**

The claim is often made that if minority businesses' capacity is increased, then there will be economic development. In other words, if minority businesses are strengthened and healthier, they will create jobs and bring economic benefits to a community. The literature on minority business development is inconclusive. There are few studies that set out to demonstrate such a claim, or even to refute it. There are numerous variables affecting minority business strength: access to capital, discrimination, firm capacity and government policy solutions, to name a few. MBE policy is one piece of an economic development strategy to assist a disadvantaged group, yet it often serves as the only strategy.



**Figure 1: Logic Model**

In the logic model (Figure 1) above, the policy problem can be characterized as extant factors hindering minority economic development in society. These factors are historical creations; however, the federal government has developed policy solutions to these problems. One such solution – public contracting guidelines that help minority-owned businesses – have been heralded is a strong tool for minority economic development. This paper examines, first, if the policy is being followed in a local example and, second, whether the policy actually works. The paper makes the assumption that because certain groups do not reap the benefits of the policy, there is

sufficient grounds to claim the policy does not work. For example, if African Americans are not receiving a fair share of contracts, in spite of formal efforts to remedy their exclusion, then it is difficult to say that public contracting is an effective economic development policy.

Public contracting policy aims to “level the playing field” and allow access where there otherwise would be none. This strategy is a firm-based economic development strategy (see Appendix A). The following literature review is an examination of the variables considered in firm-based approaches to minority economic development, with a special focus on African American communities. Public contracting policies geared towards minority-owned businesses are a capacity-building tool of the federal government, and an evaluation of them will follow. As the literature review will demonstrate, there are few studies that examine who, specifically, is helped by MBE policy. This paper added to the literature on MBE contracting policy evaluation, but it also adds to a broader conversation about economic development strategies for minority communities. As the data and results will demonstrate, MBE contracting policy should not be viewed as a viable strategy, as – at least in this sample – it does not aid racial minorities, especially African American businesspersons.

### **Access to Capital**

As a measure of business health, exports are a standard measure. There is a lack of policy to stimulate export incentives, according to Ekanem, et al. (1998). Also, the authors cite an attitude that “exporting is a marginal activity” among business owners. Like other studies, they express that “nothing is known about what role minority-owned firms have played in American export activity.” They use SMOBE data – last updated in

1987. From that dataset, 87.7% of 33,062 minority-owned business enterprises do not export.

Like other studies, these authors use exports as a measure of minority-owned business enterprises' access to global markets, an important measure for 21<sup>st</sup> century business. "Ample evidence show that minority-owned business enterprises do not possess the knowledge and expertise required to handle the risks involved in large volumes of exports," they state. Furthermore, exports by minority-owned business enterprises whose owners have prior work experience are not any different than those who do not, with regard to exports. Education is not a descriptive variable either.

Minority-owned business enterprises "lack the resources to plan or research for the right customers, and to finance the optimum volumes of merchandise needed to make reasonable profit." Ekanem, et al. recommends that the Small Business Administration and local Small Business Development Corporations should do more to subsidize loans. The literature shows that access to capital is the chief component in building minority-owned business enterprises' capacity, so if a lack of resources is preventing market entry, then access to capital might be a viable solution.<sup>3</sup> As far as a people-based economic development strategy is concerned, they show that those who do export have an owner, regardless of age of business, who is 35-54 – evidence of more experienced businesspersons. In a shifting economy, minority-owned businesses seem – at least from

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<sup>3</sup> See Fairlie and Robb (2008) and Fairlie and Robb (2010) "Disparities in Capital Access between Minority and Non-Minority-Owned Businesses: The troubling reality of capital limitations faced by MBEs" (U.S. Department of Commerce Publications) at [http://www.mbda.gov/?section\\_id=6&bucket\\_id=120&content\\_id=6470&well=entire\\_page](http://www.mbda.gov/?section_id=6&bucket_id=120&content_id=6470&well=entire_page). [Last accessed June 17, 2010}.

this outdated data – to be locked into domestic markets, where the MBE policy discussion is located.

### **Discrimination**

In a highly qualitative case study, Bonds (2007) showed that Black-owned businesses do not necessarily bring needed economic development to Black communities. The study was set in Milwaukee and used a survey methodology. The survey's results coincided with much of the empirical literature on the variables that affect the capacity of minority-owned business enterprises. First, racism was found to play a major role, according to the respondents, in holding back Black businesses. "Cracking the 'old boy' network" was a common refrain. Second, financial capital to create or maintain businesses was another factor identified as holding back Black businesses. Political power affects minority-owned business capacity, and respondents to the Milwaukee survey had a similar view. They said that little to no political support does not help anyone. Lastly – and most interestingly for this thesis – respondents stated that support from other Blacks was significantly lacking. The survey found that Black consumer loyalty as well as business-to-business support was missing significantly in Milwaukee. Many business owners felt that they operated in "isolation" of one another. There were no policy prescriptions in the piece, but the development of a Black business association might be a good start. Of course, there might be such an organization; just because one exists, does not mean people take advantage of it. It could also be too small, inept, disorganized or simply not advertised well.

It is important to highlight that discrimination, loan denial, and social networks were all cited as impediments to Black business success in Milwaukee. Regression



analyses other places show clearly that access to capital is chief among capacity-building variables. As far as community and economic development, it is important to note as well that just because there is Black business does not mean there is automatically community and economic development. Bonds shares a rich example of how the community and the consumers might affect firms, not the other way around.

More recent research on communities supporting minority firms is equally grim – possibly bolstering the argument for the importance of MBE contracting policy. Minority neighborhoods mean bad business outcomes for firms. Bates and Robb (2007) examine the competitive advantage of the inner city theory. The idea that urban neighborhoods have a locational and business advantage was first put forth by Michael Porter in 1995.<sup>4</sup> Urban neighborhoods, however, are characterized by high unemployment and low incomes. The authors, using the Characteristics of Business Owners survey, demonstrated that inner city businesses' sales receipts are heavily dependent on locals' household income. Through regression analysis, the authors show that the inner city does not have competitive advantage; in fact, it is likely disadvantageous to start a business in the inner city.

The research has significant implications for the economic development claims. If 99% of minority-owned business enterprises are small firms, and if smaller firms have trouble being successful in the inner city, and then how can minority-owned businesses facilitate economic development in the inner city (where most minority-firms are

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<sup>4</sup> See <http://www.icic.org/site/pp.aspx?c=fnJNKPNhFiG&b=3416281> . [Last accessed June 1, 2010]

located)? Seems they would likely be more focused on matter of financial survival than broader community issues or hiring lots of neighborhood residents.

Fairlie and Rabb (2008) show that one third of Black-owned business enterprises are in retail, one fifth are in professional services, and manufacturing (1.7%) and wholesale trade (1.1%) are significantly less. The number of Black-owned businesses that could take advantage of MBE contracting policy is a small number. Though they do not mention global markets, one could conjecture that manufacturing and wholesale trade are more amenable to global markets than retail. Their data comes from the Characteristics of Business Owners survey (large sample, detailed owner characteristics, last updated in 2002). They also use the Current Population Survey provided by the Census and the Bureau of Labor Statistics, Survey of Small Business Finance aggregated by the Federal Reserve, and the Kauffman Firm Survey, which followed firms for three years (from 2004 to 2007). They also used the Small Business Owners' survey (2002), conducted every five years by Census Bureau.

The authors argue that industry concentration in these sectors is due, in part, to high capital requirements, lack of skills, discrimination, and limited networks (especially for the self-employed) in other sectors. They also state that industry concentration may be the result of business success. How would Black-owned firms take advantage of MBE contracting programs if most are not in the related sectors? In the authors' policy prescriptions, they advocate for mentor-protégé partnership programs. They also explain that previous industry work experience is correlated with business success, while education is not. Inherited family businesses have the highest success-rate among small firms, but 50 percent of minority-owned businesses are self-employed, which dampens

their prospects. Also, Black firms are less successful because they invest less start-up capital, according to their research. This article raises the question again: who is helped by MBE contracting policy if the firms in question are providing services likely not to be solicited by government?

### **Capacity**

Bates (2001) tested the hypothesis that “Low penetration of MBEs into mainstream markets reflects, not discrimination, but their smaller average firm size, higher frequency of young firms, and distribution across industries emphasizing fields that governments are unlikely to buy from (such as retail and personal services)” (46). This school of thought is also represented by La Noue (see below).

Bates argues, using regression analyses, that that hypothesis is true, but it should not be used as a justification to get rid of government contracting programs for minority-owned businesses, as it often is. He argues, instead, that precisely because there is a lack of capacity that that is proof there should be even more effort to eradicate discrimination from procurement policies and allow minority-owned firms market access. He suggests that it is discrimination, which hampers minority-owned business enterprises’ capacity. Because of lacking capacity of minority-owned firms, their affect on economic development will be stunted, so Bates argues. No where is there any argument how, even with increased capacity, minority-owned business enterprises would do that, however.

Brimmer (2002) takes a historical accounting of Black-owned business and its relation to the larger economy and the Black community. He spends a large amount of time discussing the history of various industrial sectors and their history over time (using Census data and NAICS codes). Brimmer’s main thesis has not changed since 1962, he

argues. Essentially, Black businesses were protected by discriminatory policies of the United States, and they were the bedrock of the Black economy. In an era of non-discrimination (at least officially), majority-owned businesses have outperformed Black businesses in every sector, some more than others. He documents in detail how each sector has lost its previous glory (like agriculture to big conglomerates). Professional services, finance, and engineering services have grown significantly, he shows, but as far as economic development ties to this growth is concerned, he is less optimistic.

He does not explicitly state that these higher-end professions do not lead to community and economic development, but he does not say that they do either. In fact, he laments that Black businesses produce few consumer goods purchased by Blacks. One example he uses is cosmetics for Black women; as the purchasing power of Blacks increased, majority-owned firms took over markets where small, minority-owned firms had markets all to themselves. Because of their size and competitive pricing, even something as “community specific” as Black cosmetics was taken over by majority-owned firms. Brimmer suggests that Black economic development, spurred by Black businesses, has made steady progress over the past several decades, albeit very slow.

Using data from the International Trade Administration, (Stewart 2004) focused on export dollars for metropolitan areas to make a case that minority-owned firms are being left behind and not benefitting the community. He did not distinguish between city and metropolitan region, so the precision of the numbers is unknown. His figures showed the largest increase in export dollars in the 1990s from five cities: Atlanta (95.7%), Charlotte (75.9%), Greenville (129.6%), Indianapolis (97.4%), and San Jose (74.7). However, though they had enormous increase in export dollars (percentage-wise), all

ranked as the lowest out of 16 cities on a scale reaching as high as \$32 billion export dollars. All of these cities had exports at the end of the 1990s in the single-digit billions of dollars.

His goal was to understand the international trade linkages of urban areas for the development of urban areas. The author was not focused on global markets, per se; rather, he argued for “community self-reliance” and the “reemergence” of a “1960s style” Black-focused business perspective. He states explicitly that more investment should be made in community development corporations that provide employment and supply goods and services for local consumption, and he also suggests that the “Black community economic development movement that emerged in the late 1960s” should come back.

### **Individual v. Group**

Betancur and Gills (1993) argue forcefully that strong Black businesses do lead to economic development, but that the current practices and policies that attempt to facilitate business development are inept and wrong-headed. They describe affirmative action, particularly public contracting policies, as leading to “the relative expansion of nationality middle classes,” though it is unclear which nationalities he means (198). Yet they also say that affirmative action policies are mere tokenism – a limited attempt at inclusion to give the illusion of broader inclusionary practices – and seen by the White majority as an acquiescence to minimum standards of incorporating American Blacks into the business community.

Furthermore, policies to assist minority-owned businesses are an “individualist compromise,” and they do not address the groups that the policies are intended to serve,

in the authors' view. The authors also view "dispersal" and "role models" as "non-solutions" to the group-based economic oppression of minorities. Building the capacity of minority-owned businesses helps groups in what is known as a separatist model (see below), also referred to in the African American context as Black Capitalism. The authors view Black Capitalism as the only way to foster "real" community and economic development, as all other alternatives promote uneven development. Their policy prescriptions advocate for more resources directed to community development corporations (nonprofits that provide employment, housing and job-training services), only they can support "collective improvements" in disadvantaged communities.

Villemez and Beggs (1984) describe their understanding of the four "perspectives" of Black economic development: separatist ("recapturing communities"), assimilationist (entrepreneurialism), isolationist (Black Capitalism, community development), and pluralist (work in the White world, support Black businesses when possible). Despite governmental efforts, Black businesses still struggle to make more than a trivial impact on the economy. The more Black businesses in a community "seem" to have a positive net effect on the "relative well being" of the local Black community. Much of Black businesses' effect on the Black community is indirect – it usually shows up as Black "clout in a given geography. They conclude by saying that "the removal of roadblocks only frees one to travel – it does not advance the journey" (139). In other words, Black business opportunities cannot stand in for individuals' human capital.

Black businesses alone are simply too small in number, size, and impact to have much effect on the enormous economic burden that African Americans face, collectively.

They dismiss Black Capitalism as a marginal, if flawed, strategy for economic development, but they also dismiss the notion that Black entrepreneurship is ineffective simply because it does not have a direct effect on community and economic development. In the end, a good Black business environment leads to a strong Black community.

La Noue (2008) is the major contrarian in the discourse on minority business policy. He continually goes back and forth with Bates about the efficacy of affirmative action programs, primarily government procurement and purchasing programs. Bates characterizes La Noue's arguments as putting forth the idea that these programs should be abolished wholesale. La Noue, on the other hand, though not a fan of such programs, feels not that the programs themselves are bad in their goals, just bad in their implementation. La Noue favors race-neutral programs to race-conscious ones, as stated in most of his articles (1994, 1995, 1998, 2007). In this piece he argues that Small Business Administration (SBA) policies are not race-neutral, do not help truly small businesses, and are prone to racial patronage.

La Noue examines the Federal Aviation Administration (FAA) and its Disadvantaged Business Program. Similar to my research presented here, White women get nearly twice as much disadvantaged business enterprise (DBE) money as all other DBEs combined. His argument is that Congress should have hearings on DBE programs so that the definition of who is "disadvantaged" can be re-determined. He says "it has become a stereotype nearly a quarter of a century later to assume any business owned by a minority or woman in any field is socially disadvantaged" (498). Some may take that data and construe it to mean that the programs should be abolished – that is how Bates interprets it in his writings. However, La Noue advocates Congressional hearings, which

seems to be seeking revision more than abolition. African Americans were the primary target for these affirmative action policies when they were created, and it is African Americans who are rarely helped by the policies. If White people are taking advantage of a disadvantaged business program, something is amiss, he argues. As far as community and economic development is concerned, if that is the goal of the policies, which community are they helping and who is developing economically?

The literature fails to demonstrate any substantial evidence that building minority businesses' capacity, which is a firm-based strategy, builds economic development for communities, particularly African American communities. There is a dearth of clear causal links between "leveling the playing field" with firm-based strategies and aggregate advantage for disadvantaged communities; evidence is indirect, at best. The literature on MBE policy is equally inconclusive. Most research on MBE policy – which consists of countless disparities studies of government agencies in all 50 states – seek to prove discrimination in public contracting while missing the point of the policy in the first place: to put the disadvantaged in society at a more advantaged position.<sup>5</sup> There is a systemic lack of vision; local agencies and the federal government get caught in the details of the program and procedure, not overall efficacy.

### **Case Studies**

Public contracting research can be characterized by disparity studies primarily. This paper being no exception. The literature records disparities in the frequency and

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<sup>5</sup> See a sample disparity study here:  
[http://www.oregon.gov/ODOT/CS/CIVILRIGHTS/sbe/dbe/docs/study/DispStudy\\_Overview.pdf](http://www.oregon.gov/ODOT/CS/CIVILRIGHTS/sbe/dbe/docs/study/DispStudy_Overview.pdf). [Last accessed June 17, 2010].



amount of awards that DBEs receive. Case studies of state and local government responses to affirmative action programs report persistent disparities in government contracting (La Noue & Sullivan, 1995; Watson & Brooks, 2003; Steven & Robert, 2003; Marks & John, 2005; Brian & Brian, 2006; Shah & Ram, 2006; Buchanan & Klingner, 2007). Enchautegui, et al. (1997), for example, found that minority-owned firms earn 57 cents for every dollar actually available to them. Similarly, Myers & Chan (1996) analyzed contract awards to see if there was discrimination against minority firms and if set-asides – or a pre-determined amount of dollars reserved for MBEs – benefit minority firms and found that discrimination existed with regard to contract awards but not with the actual dollar amount. The literature also cites data problems, such as double counting, a problem in the academic research as well as the outcome evaluation done by some states (see previous footnote).

## **CHAPTER 3**

### **DATA AND RESULTS**

The data was collected through two Georgia Department of Transportation (GDOT) databases: the Consultant Management System (CMS) and the Consultant Management Information System (CMIS). The impetus for this research was a network analysis of construction relationships over time, conducted by myself and Georgia Tech faculty and Ph.D. students. The data obtained for that project, analyzed and coded by this author, serves a new purpose: to answer broader questions about MBE policy. For each firm, contractor data was extracted, including the number of prime and subcontractor firms for each contract, start- and end-dates of each contract, contract dollar amounts, and DBE status. There were 238 firms who contracted for preconstruction services with GDOT between 1995 and 2006. Of the total number of firms, 56 (or 24 percent) were DBE firms.<sup>6</sup> The available GDOT records did not indicate which type of DBE was involved in any one contract; information was collected from business registries and company's individual websites, in Georgia and beyond. There were five types of DBEs that contracted with GDOT from 1995 to 2006: Female Business Enterprises (FBE), African American Business Enterprises (AABE), Asian Business Enterprises (ABE), Native American Business Enterprises (NABE), and Hispanic Business Enterprises (HBE).

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<sup>6</sup> This does not represent the complete body of GDOT contracts. The dataset only includes the firms who *provided* preconstruction services. Not those firms who did not win a contract. The majority of GDOT contracts are for road-building services, not preconstruction services.

Table 1 shows that the number of DBE firms with contracts increased over time from five DBEs in 1995 to 39 firms in 2006. As a percent of all contracts, however, despite the increase DBEs' share remained roughly the same because the group as a whole was getting larger. In contrast, non-DBE firms maintained a much higher share of all firms. Though DBEs received contracts over time, so did non-DBEs – the pot was getting bigger but the proportions of contracts remained relatively stable.

**Table 1. Share of Contracts v. Dollars for Contracting Firms: 1995 to 2006**

	<u><b>DBE FIRMS</b></u>				<u><b>NON-DBE FIRMS</b></u>			
	#	Share	Contracts' Value*	Share of Funds	#	Share	Contracts' Value*	Share of Funds
1995	5	24%	\$112,484	8%	16	76%	\$378,464	92%
1996	5	22%	\$266,517	12%	18	78%	\$428,838	88%
1997	5	18%	\$330,112	15%	23	82%	\$393,410	85%
1998	7	25%	\$317,179	9%	21	75%	\$1,033,483	91%
1999	10	21%	\$240,321	6%	37	79%	\$867,699	94%
2000	12	25%	\$221,843	14%	36	75%	\$546,675	86%
2001	23	26%	\$520,142	11%	66	74%	\$1,505,587	89%
2002	7	27%	\$317,158	6%	19	73%	\$1,758,429	94%
2003	16	35%	\$184,288	4%	30	65%	\$2,196,285	96%
2004	6	35%	\$487,366	16%	17	74%	\$938,199	84%
2005	24	32%	\$561,466	6%	51	68%	\$3,145,470	94%
2006	39	29%	\$1,236,243	22%	97	71%	\$1,819,370	78%
<b>Mean</b>	13	27%	\$399,593	11%	36	74%	\$1,250,992	89%

\*Mean Value

Compared to non-DBE firms, the average contract is significantly less as well as overall share of dollars. Additionally, DBE firms received an average of 11 percent of total contract dollars over time, which is smaller than their contract share in this market (27%). In contrast, non-DBE firms received an average of 90 percent of total dollar amounts awarded, which is larger than their contract share in this market (74%). Despite these differences, the policy goal – 10 percent of funds must go to DBEs – is being followed, when averaged out. Years in which this goal was not met include, most

recently, 2002, 2003, and 2005). By comparing means, it is true that most DBE contract amounts are far less than non-DBEs. Further statistical analysis shows, after performing a parametric test, that the t-statistic is greater than the 95%-confidence p-value (greater by 9.95 for DBEs and greater by 3.99 for non-DBEs), indicating that these figures are statistically significant.

There are a total of 56 contracting DBE firms in the dataset over the 12 years. Table 2 divides the DBE firms into seven different categories: Female Business Enterprises (FBE), African American Business Enterprises (AABE), Asian Business Enterprises (ABE), Native American Business Enterprises (NABE), Hispanic Business Enterprises (HBE), and mixed categories (FBE/AABE and FBE/ABE). On average, 49 percent were FBEs, 22 percent were AABEs, 16 percent were ABEs, four percent were NABEs, and two percent were HBEs. In addition, five percent were a combination of AABE/FBEs, and two percent were a combination of ABE/FBEs (these firms have not been counted in other categories). Table 2 also shows that two-thirds of the time, FBEs had the largest representation among successful contractors. As the years go by and the pool grows in size, FBEs' representation keeps pace and is not diluted.

**Table 2. Percentage of DBE firm by Type v. Share of Dollars: 1995–2006**

	<b>FBE</b>	<b>AABE</b>	<b>HBE</b>	<b>NABE</b>	<b>ABE</b>	<b>FBE/ AABE</b>	<b>FBE/ ABE</b>	<b>TOTAL FIRMS</b>
<b>1995</b>								
% of Firms	20%	0%	0%	0%	60%	20%	0%	5
% of \$	61%	0%	0%	0%	38%	2%	0%	
<b>1996</b>								
% of Firms	40%	20%	20%	0%	0%	20%	0%	5
% of \$	86%	1%	13%	0%	0%	1%	0%	
<b>1997</b>								
% of Firms	20%	40%	20%	0%	20%	0%	0%	5
% of \$	68%	4%	23%	0%	5%	0%	0%	
<b>1998</b>								
% of Firms	29%	14%	14%	0%	43%	0%	0%	7
% of \$	21%	9%	15%	0%	55%	0%	0%	
<b>1999</b>								
% of Firms	50%	0%	0%	0%	50%	0%	0%	10
% of \$	64%	0%	0%	0%	36%	0%	0%	
<b>2000</b>								
% of Firms	42%	17%	8%	0%	33%	0%	0%	12
% of \$	33%	19%	4%	0%	44%	0%	0%	
<b>2001</b>								
% of Firms	39%	35%	4%	4%	17%	4%	4%	23
% of \$	50%	30%	7%	2%	8%	1%	1%	
<b>2002</b>								
% of Firms	57%	0%	0%	14%	14%	0%	14%	7
% of \$	88%	0%	0%	7%	0%	0%	5%	
<b>2003</b>								
% of Firms	69%	19%	6%	0%	6%	6%	0%	16
% of \$	65%	23%	7%	0%	5%	1%	0%	
<b>2004</b>								
% of Firms	100%	0%	0%	0%	0%	0%	0%	6
% of \$	100%	0%	0%	0%	0%	0%	0%	
<b>2005</b>								
% of Firms	63%	17%					0%	24
% of \$	80%	5%	4%	4%	13%	4%	0%	
			1%	1%	13%	1%		
<b>2006</b>								
% of Firms	56%	26%	3%	5%	13%	3%	0%	39
% of \$	68%	10%	1%	9%	11%	0.38%	0%	
% of Firms								
% of \$	49%	16%	7%	2%	22%	5%	2%	
	65.33%	8.48%	5.88%	1.59%	17.87%	0.45%	0.52%	

Table 2 also provides a summary of the types of DBEs that contracted with GDOT from 1995 to 2006. The tables show the percentage of contracts and the percentage of dollars awarded to each type of DBE firm. Between 1995 and 2006, FBEs earned the highest percent of DBE dollars from GDOT (65%). ABEs received 18 percent of DBE contract dollars over time. AABEs received less than 10 percent of all DBE dollars.

## **CHAPTER 4**

### **CONCLUSION AND POLICY RECOMMENDATIONS**

This paper explores the role of Disadvantaged Business Enterprises (DBE) contractors over time within a state Department of Transportation. Based on 12 years of GDOT contract data, two clear points can be made. First, per firm, dollar amounts awarded to DBEs was a small fraction of the share earned by non-DBEs, despite GDOT meeting the “10 percent of funds” federal goal. Second, DBEs earned nearly two times as many DBE dollars (\$50,056,889) as all other DBE firms combined (\$26,553,021), which backs up the analysis of La Noue.

The number and type of DBEs that receive contracts as a percentage of the total number of DBEs that submitted proposals for contract work is unknown. The term “discrimination” has not been used in this case study because only with a better knowledge of the contracting universe within which all of the firms operate can discriminatory practices come into clearer focus. Understanding firm size (which is unavailable from the databases) would also shed light on the implications of the dataset in relation to the extant literature. However, the year-over-year scope of the data allows for stronger conclusions about this agency’s program than merely a one-time snapshot of a given year, as there are many fluctuations year to year. In conclusion, it is fair to say that the policy is being followed at GDOT, but it might not necessarily be fair, given John Rawls understanding of justice. That is, a policy that creates inequality can only be understood as fair if the least disadvantaged in society are offered an advantage. This research project raises a larger question that is unanswerable: are all groups that have

faced past discrimination continually disadvantaged? Are women as disadvantaged as Asians? Are Asians as disadvantaged as African Americans? What about Native Americans, arguably the most disadvantaged of American minorities?

Which raises the much larger question for economic development theorists, does MBE policy regarding public contracting really help the disadvantaged? The literature shows few links between minority business development and economic development. Additionally, federal policy in this particular case is assisting disadvantaged business to the letter of the law, but not necessarily in the spirit of the law. Particularly in Georgia, a state with a history of legal segregation and discrimination against African Americans, is the federal policy, as implemented by GDOT inserting fairness into an unfair situation? The analyzed data would indicate otherwise.

Policy implications include reviewing further data on MBE *outcomes* as well as reviewing what groups should be considered disadvantaged. According to MBE legislation, every one in the United States who owns 51% of a business qualifies as minority business enterprise, except for Caucasian males.<sup>7</sup> It is time for the federal government to:

- Reevaluate the criteria for being “disadvantaged”
- Incorporate income-based approach to certifying businesses as disadvantaged

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<sup>7</sup> For an extended look at the evolution of the “minority” classification in federal regulation, see Matthew Sonfield (2005), “A new U.S. definition of ‘Minority Business’: Lessons from the first four years.” At <http://mgtclass.mgt.unm.edu/DelCampo/MexAmerEntre/17277544.pdf>. [Last accessed June 17, 2010.]



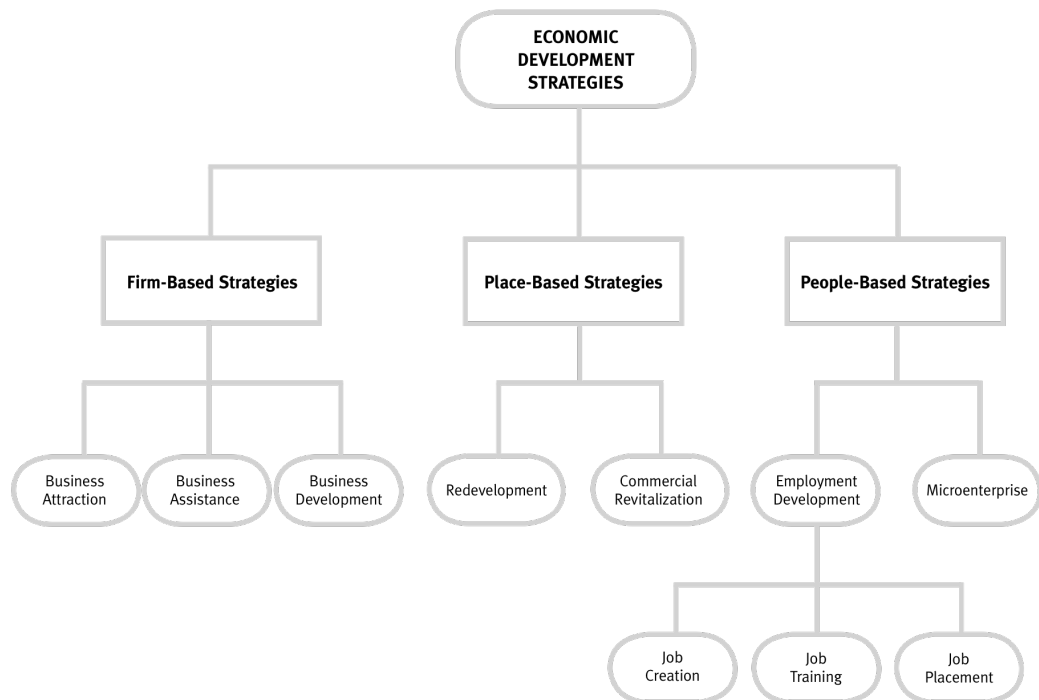
- Remove the term “Minority Business Enterprise” and support Disadvantaged Business Enterprises instead, as classifying incentives based on race is effective
- Fund studies on contracting programs to determine the types of DBE that are rewarded through the federal policy

Furthermore, for economic development theorists, a race-conscious approach might need to be reevaluated in terms of effectiveness. If affirmative action policies were originally established to right past wrongs done to African Americans – legalized job discrimination, housing segregation, etc. – then what can be done about policy instruments, designed to rectify past wrongs that actually are not effective at all? How can Black businesses be assisted in 2010? Should MBE policy even exist at all? And for women, what programs have helped women, and in what area of society do women no longer have a disadvantage (e.g., there have been more women than men enrolled in colleges and universities, since 2000).

These types of contracting policies – and affirmative action policies in general – were never designed to be permanent, but when will we know the right time to abolish them? When do they move from being policy tools to hindrances? When do they move from being assistance to being a patronage system? Are all minority groups equally disadvantaged? These questions look at the technicalities of policy to ask broader philosophical questions.

## APPENDIX A

Outline of economic development strategies from *Economic Development and Redevelopment* by the California Department of Health Services (2007).



## APPENDIX B

### Statistical Analysis Results

	MEAN	SE	T-STATISTIC
DBE	\$399,593	\$23,571.41	9.95
NON-DBE	\$1,250,992	\$41,306.51	3.99

In the above chart, the t-statistic's p-value for DBEs and non-DBEs is well above the 95% confidence level, indicating that the difference in means is significant. See page 20 and 21.

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